ALLIANCE FOR RATIONAL INTERCARRIER COMPENSATION

presents

The FACTS

- **F**air
- **A**ffordable
- **C**omprehensive
- **T**elecom
- **S**olution

Attributes of the FACTS Plan

- Local Rate Benchmarks
- Equalized SLCs
- Unified, Cost-based Intercarrier Compensation
- Current Federal USF
- New State Residual Funds
- Regime for IP Compensation

Local Rate Benchmarks

- **How?**
  - **The FCC and the states will establish a benchmark floor and ceiling on either side of the nationwide average RBOC rate.**
  - **Each state commission sets state benchmark(s) considering affordability and calling scope. Local rates transition to the benchmark over five years.**
  - **Wireline carriers who don't charge the benchmark rate may impute the rate.**
- **Why?**
  - **Equity and comparability of rates across the nation**
  - **Replaces existing "patchwork" of rate setting rules**

Equalized SLCs

- **How?**
  - **The current SLC caps will continue.**
  - **SLCs will be redefined to include recovery of both NTS and TS costs.**
  - **Rural wireline carriers will bill SLCs at the average residential and business rates for the RBOC in each state.**
- **Why?**
  - **Comparability between rural and non-rural LECs**
  - **Alternate vehicle to recover TS costs for low-cost carriers--which allows a holistic solution**

What really is happening to minutes…

- **Generally, total NETWORK (access + recip comp) minutes are holding fairly steady.**
  - **Originating minutes are being lost to cellular and VoIP bypass.**
  - **But, terminating *network* minutes are generally not decreasing, and may be increasing.**
  - **Terminating access minutes are moving to recip comp.**
- **Minutes are being misrepresented to avoid higher rates.**

Unified Intercarrier Compensation Rates

- **How?**
  - **Unify all Intercarrier Compensation rates--state, interstate and recip comp.**
  - **Charge Intercarrier Compensation for all network minutes.**
- **Why?**
  - **Unified Intercarrier Compensation (ICC) rates reduce arbitrage opportunities.**
  - **Provides a mechanism to bill for all traffic traversing the network.**

Additional Provisions to Minimize ICC Abuse

- **The tandem owner is responsible for payment of unidentified ICC traffic.**
- **ICC traffic sent over EAS trunks will be billed to the ILEC sending the traffic[1].**
- **ICC traffic terminated over the ISP's local lines will be billed the ICC rate.**
- **Default termination tariffs at the calculated ICC rate will apply to recip comp traffic not covered by agreements[1].**

[1]Until a 3-party agreement is in place.

Cost-based ICC Rate Levels

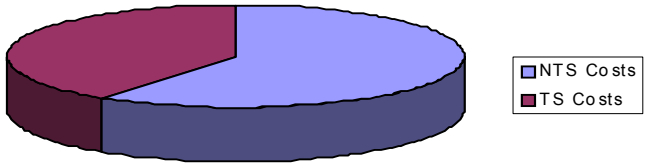
- **How?**
  - **Initial ICC rates based on TS unseparated embedded cost.**
  - **Permanent ICC rates set in FCC NPRM coordinated with RTF timeline.**
  - **Merge intrastate and interstate special access rates and structures.**
- **Why?**
  - **The FCC's original ICC NPRM stated that if not B&K, the rates must be based on economic cost.**
  - **Cost-based rates are efficient--No over or under consumption.**
  - **We expect the resultant lower rates to help companies meet the bypass threat.**

ICC Rates are filed, then validated

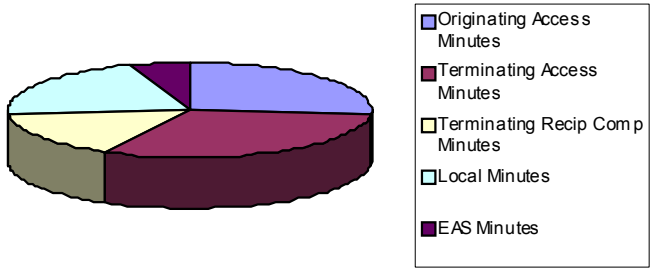
- **How?**
  - **Initially, the FCC and the states establish a joint process to review the procedures and data to determine ICC rates.**
  - **Annually, rates are filed at the FCC. The FCC and states will jointly review the rates to determine consistency with the pre-established procedures.**
- **Why?**
  - **Under the TA96, states have jurisdiction to approve recip comp rates.**
  - **States also have authority over intrastate access rates.**

ICC Rates = TS Costs/Total Minutes

Divide TS Embedded Costs by



Total Minutes using the Network



- **ICC rates will be banded and rate elements will be designed to recover costs of various interconnection configurations.**
- **ICC may be imputed for USF purposes and billed at a lower rate.**
- **ICC recovers TS costs less special access revenues less the TS revenue contribution from local service and SLCs.**

Why usage-based rates?

- Switching and transport costs are Traffic Sensitive.
  - Peak traffic load drives cost in both circuit and packet networks.
  - We believe that usage-based rate structures better allocate costs to network users than capacity-based structures.
- Usage-based rates are still prevalent in many retail rate structures, e.g. wireless.

Why usage-based rates? (continued)

- Capacity-based rates do not handle common trunks, rather RBOCs are forced to be aggregators.
  - The aggregator will likely bill on a per minute basis.
  - Aggregators will have control of pricing.

Why usage-based rates? (continued)

- The "additional cost" standard for recip comp is on a per call basis (applied per minute.) Charging recip comp on a capacity-basis is a violation of TA96.
- Capacity-based rate structures appear to confuse the compensation obligations associated with wholesale/retail relationships.

Why not Bill and Keep?

- Rural rate impacts are huge.
- Will lead to more destructive forms of arbitrage.
- Retail providers (IXCs, CMRS, and VoIP) cause cost and receive benefits from the use of rural networks without payment.

Who pays ICC?

- **Retail Service Provider Pays (RSPP)**

  When a retail service provider uses the network functionality of another carrier, the retail carrier is obligated to pay compensation.

- **RSPP is consistent with today's (recip comp and access) compensation obligations.**

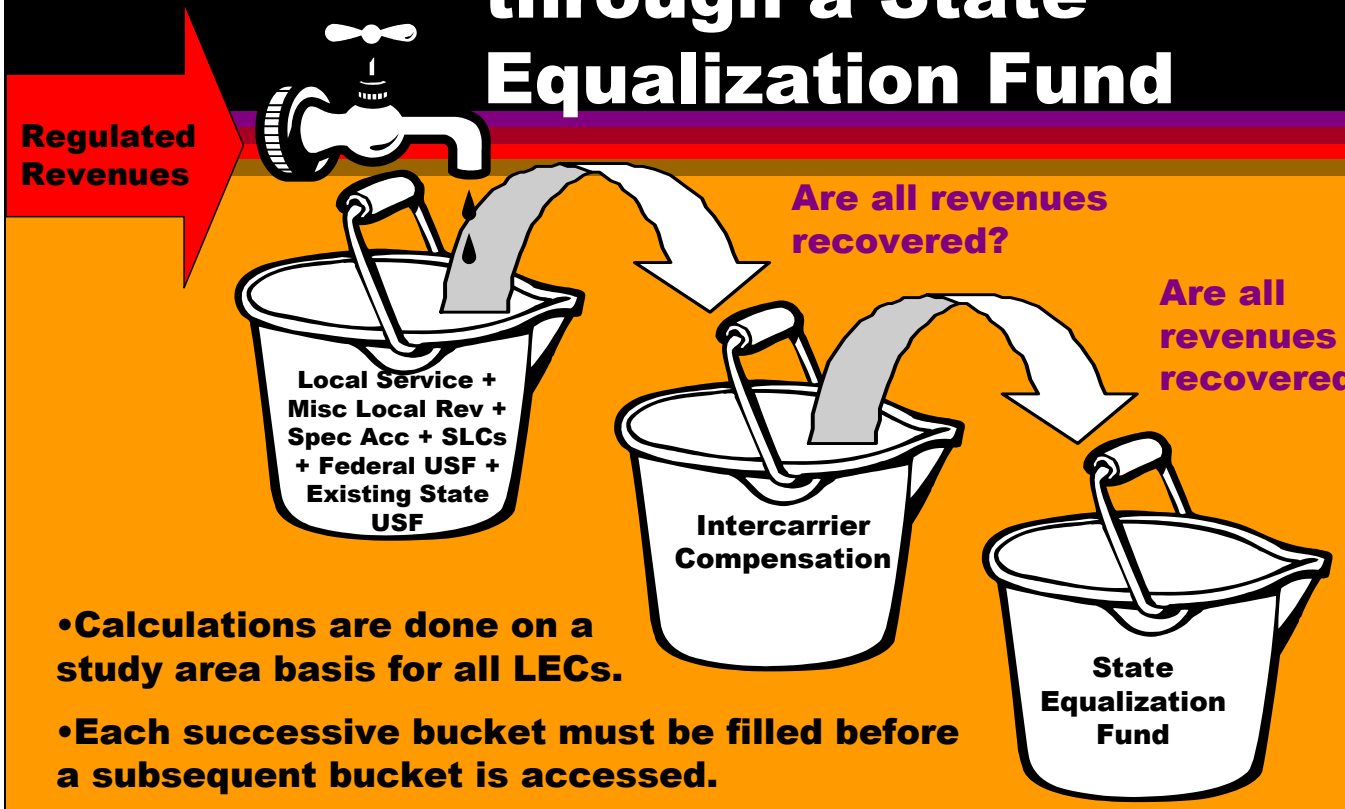
- **RSPP also makes sense in the IP world.**

- **Under RSPP, transiting costs are billed to the retail service provider, usually the IXC.**

Retain Existing Federal USF

- Existing federal USF is calculated according to the current methodologies.
- Existing federal USF includes HCL, ICLS, LSS and IAS.
- The current cap on HCL would be removed.

Residual revenues are recovered through a State Equalization Fund



- Calculations are done on a study area basis for all LECs.
- Each successive bucket must be filled before a subsequent bucket is accessed.
- Some RBOCs and other ILECs may not bill ICC.

State Equalization Fund (SEF)

- **How?**
  - State commissions have control over SEF distributions.
  - At the discretion of the state, existing state USF may be merged into SEF.
  - SEF recipients must be ETCs.
- **Why?**
  - States should control disbursement of SEF funds since state revenues are being replaced with SEF.

SEF funding is shared between the jurisdictions

- **How?**
  - **Both state and federal sources contribute to SEF funding.**
  - **Federal funding is contingent upon states reaching the benchmark floor and the state funding its share of the SEF.**
- **Why?**
  - **Federal funding is desirable to limit the burden on rural states.**
  - **State funding is desirable in order to encourage states to manage SEF size and limit federal USF growth.**

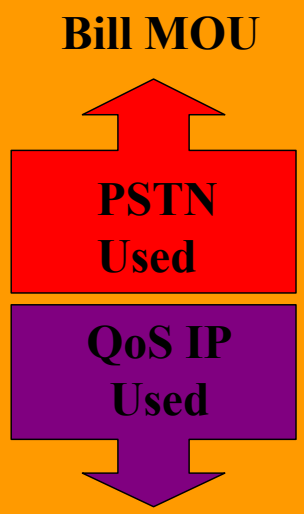
Federal Contributions to SEF

- **How?**
  - **Equalize the SEF funding burden by having a higher federal contribution in more rural states.**
  - **The minimum federal contribution is 25% while the maximum is 75%.**
  - **The federal jurisdiction will assume its percentage of the entire obligation--SEF and existing state funds.**
- **Why?**
  - **Rural states need more funding per customer.**
  - **Rural states have fewer customers from whom to collect SEF assessments.**

If a state chooses not to establish a SEF…

- **How?**
  - All carriers, wireline and wireless, in the state collect or impute a statewide average "Access Equalization Charge" on each working number.
  - Carriers remit the charge to NECA, who then redistributes the collections within the state based on an individual company's revenue shortfall.
  - No federal funding is available when an Access Equalization Charge is implemented in lieu of a SEF.
- **Why?**
  - Companies in states that do not implement a SEF will have a means to recover their revenues.

Parallel Universes: Circuit Switched & IP



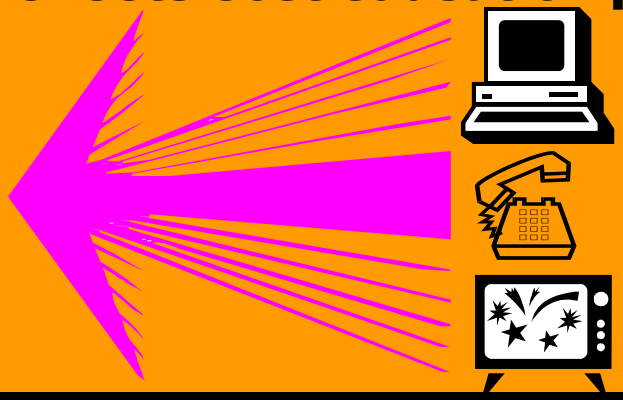
- Today's access charge environment is consistent with RSPP.
- To the extent the Public Switched Telephone Network (PSTN) is used, PSTN compensation should be paid.
- RSPP compensation obligations should be no different in the IP environment.
- IP traffic should be billed using a new compensation structure based on cost causation in an IP world.

Current Internet costs are not reflective of future IP costs

- Currently, customers mainly use the Internet for e-mail and web-browsing. These applications require limited network resources.
- In the future, multimedia applications, such as gaming, video streaming, video imaging, VoIP and web casting, will be widely used by customers. These applications require extensive network resources.
  - Example: DSL customer subscribing to 0.2% of capacity using 7% of transport capacity.

Cost-causation in a QoS IP World

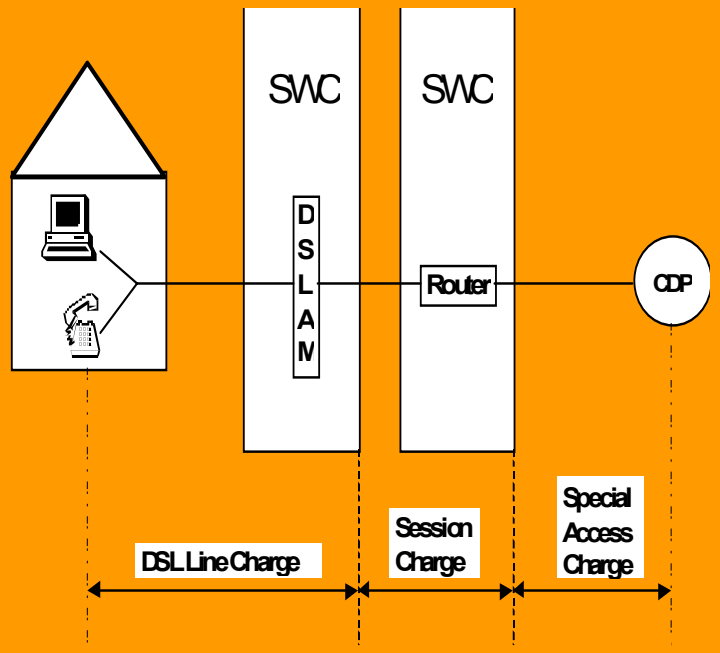
- Quality of service (QoS) parameters, such as throughput, jitter, delay and packet loss, as well as duration and distance all reflect network cost in a multimedia IP environment.
- A session reflects cost-causation parameters.



Sessions guarantee QoS IP resources

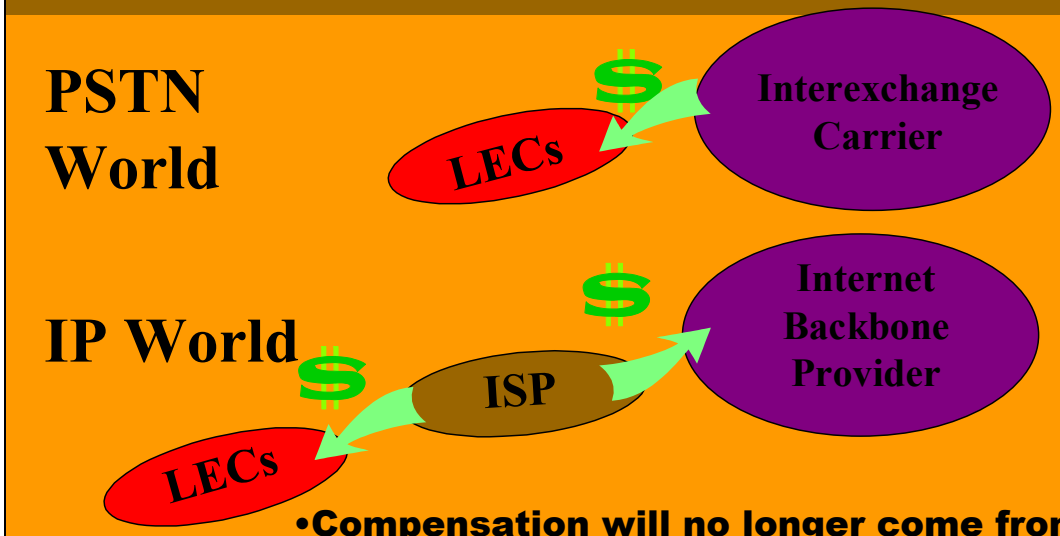
- A Session in the IP World is analogous to a Call in the Circuit Switched World.
- Customers initiate sessions to dynamically request network resources that support various multimedia applications.
- Multiple sessions can occur at the same time.

Future DSL tariffs should reflect IP cost causation



- **DSL Line Charge**
  - **Flat rate per month**
- **Session Charge**
  - **Units by QoS Class**
  - **Provides cost recovery from cost-causers in an IP world.**
- **DSL rate elements cannot be purchased independently.**

As the market changes, so will the source of compensation



- Compensation will no longer come from IXCs, rather ISPs will pay LECs. For many rural LECs, the ISP and the LEC are the same company.
- Sessions are billed to the Retail Service Provider.

Regulation of IP

- **To ensure service to rural customers in an IP environment there must be:**
  - **affordable, reasonable access to the backbone providers, and**
  - **infrastructure-based USF, and**
  - **a level playing field with providers using other technologies, and**
  - **compensation consistent with IP cost causation.**